



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Remarks of Sen. Chuck Grassley Before the 14th Annual
Tax, Budget & Legislative Policy Seminar
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I would like to address some of the major business tax issues that will come before the Committee this year, and give you my assessment of their current state of play. Yesterday was a pivotal day for this year's tax debate. Yesterday, the Senate slashed the tax cut authorization in the budget resolution to \$323 billion, down from its original \$698 billion. Clearly most of the reduction was aimed at the President's proposal to eliminate the double taxation of dividend income. Eliminating double taxation is good tax policy. Taxing income twice distorts basic business decisions and results in economic inefficiency. I don't think people realize who is hit with the double taxation of dividends. The Federal Reserve says 52% of families owned stock during 2001. A recent industry study says the average investor is in his or her late 40s, married, has a household income in the low \$60,000s, and is saving for retirement. His or her average investment is less than \$50,000. Senior citizens would receive half of the tax savings under the President's dividend proposal, with an average savings of \$990 per senior. Several amendments will be offered today to reinstate all or part of the tax cut reduction. I hope they are successful. We can do more good growth-oriented tax policy with a higher number. I believe the Finance Committee can do a lot of good tax policy with the Centrists' compromise number of \$350 billion. We can still accelerate individual rate cuts, expand the 10% bracket, reduce the marriage penalty, and increase the child care credit. We can still increase small business expensing.

The Finance Committee will act on a growth and jobs package as soon as the budget resolution gives us a final number for the tax package. I will work closely with my colleagues on both sides of the aisle to craft a growth and jobs proposal that can be passed in a 51-49 Senate. I would note, however, that while many of my counterparts complain about the state of the economy and the stock market, few have offered creative solutions. I commend the President on his effort to craft a fiscal policy that would address the difficult issues facing our financial markets and the impact those issues have on Americans' sense of financial well-being.

Energy is on a lot of people's minds these days. Congress needs to respond to the nation's ongoing concern about energy sources and our energy policy. I plan to mark up an energy bill in the Finance Committee very soon. We may even turn to the energy bill before moving onto the growth package. Another important issue is the WTO decision on FSC-ETI. Our bipartisan, bicameral working group has continued throughout the fall. We are working hard to reach agreement on this issue. We are committed to getting it done this year, but addressing the economy comes first. We will turn to FSC-ETI once we have completed action on a jobs and growth package.

We hope to have the CARE Act taken up before the April recess. The bill contains the President's proposals to encourage greater charitable giving. Of great importance is the CARE Act's revenue offset: the tax shelter provisions. This tax shelter provision differs greatly from last year's *Tax Shelter Transparency Act*. The current version includes clarification of the economic substance doctrine. As I said during the mark-up of the CARE Act, I am concerned that this clarification may be too broad and vague for taxpayers to know whether it applies to a planned transaction. If we are going to impose a strict 40% penalty, taxpayers need to know with certainty whether they could run afoul of it. Accordingly, I'd like to invite public comment on the economic substance provision contained in that bill. We will need to revisit this shelter provision because the Joint Committee released its report on tax and compensation abuses at Enron after the CARE Act mark-up.

Now, let's talk about the Enron report. I suppose I should not have been so shocked by what we learned about Enron, but I was. The collusion we saw among accountants, lawyers, and investment bankers was nothing short of racketeering. They knew what Enron was up to and they aided and abetted its financial fraud. Corporate malfeasance is a cancer that can spread if it's not cut out. Some would argue that Congress created the loopholes we're now condemning. I think it's more likely that we crafted vague legislative language that creative people learned to exploit. Congress has a responsibility to conduct oversight in this area. Innocent people get hurt when companies play games with money. So we will revisit our shelter bill in light of what we have learned.

Inversions will again be on the table this year. We will reintroduce both our REPO bill and our RECAP bill. The REPO bill strips the tax benefits out of an inversion, and the RECAP bill bans inverters from receiving federal contracts. Among other unfinished business from last year is the pension bill, which was S. 1971 in the 107th Congress. This bill was caught up in the end of the session gridlock and needs enactment. It will provide workers with important new diversification rights so that they can better manage their retirement accounts. I also anticipate that the *Armed Forces Tax Fairness Act* will soon be passed by the Senate. The revenue offset in that bill covers individual expatriations. The Joint Committee released its report on individual expatriation activities after CARE was passed by Finance, so we may need to revisit this offset as well. With that, I would like to open our discussion to any questions.